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Issues Confronting the Indian Textile Industry

GUEST COLUMN

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The textiles and apparels industry play a crucial role in the Indian economy. It is the largest employment providing industry after agriculture, with 45 million people employed directly and 20 million people employed indirectly in this sector. This sector accounts for about 12% of the total exports earning and about 4% of the GDP.

If we look at the Indian textile and apparel industry on a global scale, India is placed in the second position in the world export market only after China. However, if we compare the share of China and India, then we will see that there is a huge difference in both economies. The Indian share in the world market in 2016 was a mere 4.9%, whereas the Chinese share was more than 35%! This worked out to be more than seven times of the Indian share.

However, India enjoys the status of being the largest exporter of cotton textiles in the world with a share of more than 9% in the global cotton textile trade. This shows its strong dominance in the world cotton textiles.

Potential Yet to Be Explored By the Indian Cotton Textile Industry

There are certain potentials that lies with the Indian cotton textiles Industry that are still under-utilised:

- Indian cotton yield is comparatively lower (about 500 kgs/ hectares) as compared to

the yield of other leading cotton producing countries. It is much lower than the world average cotton yield of about 775 kgs/ hectare. Leading cotton producing countries like China, Australia and Brazil, have a yield level of 1693, 1936 and 1622 respectively. India has the potential to increase its cotton production by improving its yield level.

- Indian cotton is hand-picked and roller ginned cotton, which gives an advantage of lower neps and comparatively lower short fibres as compared to saw ginned cotton. Despite Indian cotton being better in terms of quality, it is discounted by about USC 6 to 7 per pound on account of being contaminated. Therefore, by reducing contamination, it can add value of about USD 1 billion on its present level of production.

- India is exporting between 60 to 70 lakh bales of 170 kgs to cotton textile processing countries like Bangladesh, China and Vietnam. With increase in spinning capacities, Indian cotton consumption can be increased and instead of exporting cotton, cotton yarn or other value-added products can be exported from the country.

- India has availability of its own raw cotton, therefore it has the potential to improve upon the investments in the knitting, weaving, garmenting and processing sector, so as to export the finished products instead of raw cotton and cotton yarn. This will benefit the Indian cotton textile industry. The Government of India, has been offering various incentives and subsidies to encourage setting up of textile and processing units.

- Indian per capita consumption of fibre is less than 5 kgs which is much lower as compared to the other developed countries. For instance, in China it is more than 15 kgs and in the USA it is 30 kgs. With the growing aspiration of Indian youth and with increased per capita income, there is a scope of increase in the Indian per capita consumption of fibre.

India Losing Its Competitiveness On The Global Front

Despite having many advantages like availability of its own better quality of raw material, Govt. schemes to promote the textile and clothing industry, India is losing its global competitiveness to the other textile manufacturing countries.

Certain leading textile processing countries like China Bangladesh and Vietnam are exporting the yarn and other value-added products made from Indian raw materials. This implies that by exporting raw materials instead of exporting the finished and value-added products, India is somewhere losing its business to these countries. This is happening mainly because of the certain cotton related issues, certain defects in the Indian Govt. policies, various exports subsidies provided by competing countries, as well as because of the following operational issues:

A. Key Concerns Related to Cotton Economy:

1. Non-availability of next technology seed

The main area of concern for the cotton textile industry is the availability of the right quality of seed for cotton cultivation. Indian cotton yields have been stagnant or reducing from the last couple of years. Main reason for this can be attributed to seed.

Every new technology, at some point of time became obsolete. Same is the case with the Indian BT cotton seed. Over the years, Indian cotton seed seems to have developed resistance to pest attacks. The same is evident from the attacks of the white fly witnessed in North India and appearance of the Pink Boll worm in Gujarat and Maharashtra from the last couple of years. This is a major threat to the growth of Indian cotton economy. India needs to have next generation seed available with it suitable to its agronomic and climate conditions to boost its cotton yields.

2. Lack of irrigation facilities

Indian cotton cultivation is mainly dependent on the monsoons for its water needs. In India, more than 65% of the area under cotton cultivation is rain fed. Out of the 11 main cotton producing states in India, only Punjab and Haryana have about 100% irrigated area under cotton cultivation. The rest of the major cotton producing states like Maharashtra, Telangana and Andhra Pradesh only have about 25% of the irrigated area under cotton. Therefore, monsoon plays a crucial role in these cotton producing

states, where both quantity and quality of the cotton is highly dependent on the monsoon which is uncertain.

If the monsoon remains favourable in a particular crop year, then the cotton crop remains good, otherwise untimely rains or lack of rains during maturity of the cotton plant may put the cotton crop under pressure and result in lower productivity of the cotton crop. In such a situation, the cotton crop not only suffers from the low yields but it may affect the quality of the crop too.

Therefore, there always remains an uncertainty about the quantum of cotton crop because of uncertain weather. Drip irrigation is a system which needs to be adopted in the country in order to have better yields and to ensure optimum utilisation of the water input for cotton cultivation. There are few examples in Maharashtra and Gujarat, where drip irrigation has resulted in better yield. As per Jain Irrigation, they have transferred this technology to a few farmers and these farmers are getting huge improvement in yields. Farmers have achieved yield of 19qtl/acre to 42qtl/acre, i.e equivalent to 1800-3500 kg lint/hectare.

3. High level of contamination

High level of contamination in the cotton is another concern for the cotton textiles. Spinners have to make huge capital investments by the way of installation of contamination removal equipment at the blow room stage and winding stage. There is a drop in efficiency in the spinning process. Cost of removing the contamination at the spinning stage costs about Rs. 7 to Rs. 8 per kg. Despite installation of the contamination control measures at the spinning stage, contamination may be processed in to the fabric. Therefore, cost of removing the contamination up to the fabrics stage by the way of mending cost works out to about Rs. 10 to Rs. 11 per kg.

4. Unethical practices including adulteration adopted by cotton ginners

In order to get the better parity, some ginners indulge in unethical practices like false packing of cotton bales and adulteration of by product with the virgin cotton. This not only shakes the trust and confidence of the buyer in the Indian supply, but also tarnishes the image of Indian cotton in the export market. Such things should be avoided and ginners should remain firmly committed to following ethical business practices for the sake of the country's image.

5. High labour cost involved in cotton cultivation

Harvesting and picking cost is one of the major cost component in the total cost of producing cotton. Since Indian cotton is hand-picked, the high labour cost in engaging the labour for picking cotton increases its cost of production. With labour cost increasing in India, it is advisable to adopt to the mechanical picker for harvesting cotton suitable to the Indian farm size and conditions.

6. No bale identification system

Unlike USA, Indian cotton bales are not given a tag mentioning its bale number and other details. Earlier under the 'Cotton control order 1986', Ginning and Pressing mills in India were obliged to put 'press running number including month; year and place of production' on every bale. But later, the Govt. had withdrawn such requirements.

India should also develop a system of marking each and every bale produced in country with a unique identification number. This will enable us know the actual production numbers of the cotton produced in the country. A true picture of demand and supply numbers will help the stake holders in decision making.

Present system of estimation of crop in the country may result in a dire situation in the period of crises or shortage.

7. Grading of Indian cotton

Indian cotton is not classified on the basis of quality like the US cotton. There is no system to give grades to the Indian cotton in terms of quality. As a result, better quality of seed cotton gets mixed with the lower quality of seed cotton. There should be a system of giving grades to the Indian cotton on the basis of its HVI quality parameters and cotton should be marketed on the basis of grades. By following the grading method, better quality cotton will fetch premium over the basic or lower quality cotton in the market.

8. Poor packing material of the cotton bales

Packing material of Indian cotton needs to be improved. Cotton bales should be covered with cloth made of 100% cotton. If the cotton bales

are covered with cloth made of 100% MMF or blend, then there are chances that material from the packing cover gets into the cotton, which is then processed into yarn during spinning which results in contamination. This non cotton material appears different when it is dyed.

B. Operational Issues Related to Cotton Textiles:

1. Scale of operation. The scale of operation of the Indian textiles industry is comparatively small, post spinning operations particularly weaving, processing, knitting and garmenting units are of small and medium size. This has put the industry in disadvantageous position against the industry in other textile processing countries particularly China and Bangladesh that are availing the benefits of scale production.

As a result, Indian small textile processors are not able to offer better price in line with its competing countries.

2. High cost of transportation including cross Subsidy paid by cargo freight.

Cargo freight charged by Indian railways has been increasing from last many years while passenger freight has remained same or increased marginally leading to cross subsidy on cargo freight.

The main reason for hike in transportation freight is the poor infrastructure and low productivity. Freights revenue in India for moving cargo per ton/km is four times of the revenue earned from moving a passenger. Higher freight cost for moving the cargo ultimately results in higher prices.

3. High lead time for exports. Global buyers are asking for compressed time (about 45 days) in making delivery of their shipment. Transit time for exporting the goods from India is higher mainly because of the poor infrastructure, poor road conditions, state/toll barriers and uncertain conditions like strikes and heavy rain fall, etc. that result in blocking the movement of cargo and also result in the blockage of working capital in form of goods in transit. The high lead time tends to discourage the buyer who requires early delivery of the material.

4. Cargo processing at the borders exit points needs to be fast. Slow processing at the border is the main hindrance in exporting textile products. Long queuing of almost 15 days at beanpole – petrapole border is a big issue in increasing the exports to the Bangladesh which is a big market for the textile products.

5. Power cost including cross subsidy in power cost, poor infrastructure in India reduce its international cost competence.

6. Increasing labour cost in garment industry. Since the garment industry is highly labour intensive, it has also put down the Indian international competence in terms of cost.

7. Lack of skilled labour: There is much scope for developing the skills of the labour engaged in the garment Industry in India. Because of the lack of skilled labour, productivity of the labour engaged in the garment industry is comparatively lower as compared to other competing countries like Bangladesh.

C. Policy Related Issues:

1. On account of lack of level playing field to remain competitive on the export front, India is losing out its share in the textile value chain to low cost converting countries like Vietnam and Bangladesh, as they enjoy the LDC (Least Developed Countries) status. The LDC has given these countries an edge over Indian exports and exports from these countries are about 10% cheaper at threshold level.

2. India is also losing its export business in the Chinese market i. e largest importer of the cotton yarn from countries like Vietnam and Indonesia. These countries have free access to the Chinese market, especially for cotton yarn, whereas imports from India attracts a duty of 3.5% under APTA (Asia Pacific Trade Agreement).

3. Indian lacks FTA's (Free Trade Agreements) with the consumption base countries that are a big market for textile and apparels products like EU. As a result, Indian textile and clothing exports suffers from serious market access problems due to tariff preference enjoyed by competing textile producing countries like Bangladesh, Pakistan, Turkey and Vietnam.

4. Imports of cheaper textile products from China are also a threat to the Indian textile

industry. Chinese textile mills enjoy economies of large scale operations, low cost of production along with Govt. subsidies for export.

5. There are various social compliances which the capital intensive textile industry has to comply with, ZLD (Zero Liquid Discharge) imposed in western Tamil Nadu along with other social compliances, has resulted in the overall increase of 10-15% in production cost. Survival of the small units has become a challenge. Therefore, the Govt. should help the industry by way of of capital subsidy scheme on installation of ZLD plants.

6. After the roll out of GST, the industry was expecting a cushion by way of ROSL (Rebate of State Levies), but GST has resulted in the problem of blockage of working capital for the industry.

Under the current system of rebate on state levies, there are certain taxes and levies which account for more than 6% of the cotton yarn export price which are non-refunded. (ROSL Scheme covers only garments and made ups but does not cover cotton yarn and fabric. Since taxes on many inputs such as Agri inputs, power, fuel etc. are not included in GST system, hence are not refunded).

7. Interest equalisation scheme for cotton yarn: There are certain goods on which 3% subsidy on the interest rates charged by the banks on export finance is provided. Export of cotton yarn should be covered under 3% Interest Equalization Scheme.

8. 3% Interest Equalisation Scheme for merchant exporters as well: This scheme is applicable to the manufacturer exporter of the textile goods only. This scheme should be extended to the merchant exporters of the textile goods too as SME industries are dependent upon these agencies for export marketing of their textile goods because of lack of resources and expertise.

9. Export finance to be made available at concessional rate of interest. Ideally export finance should be provided at LIBOR plus 150 basis points.

9. To promote export in Non- traditional products and to develop new product line including value added products, 5 years tax holidays may be given to companies on export of textile goods.

10. Under GST, duty credit scrips (issued under chapter 3 of the FTP) cannot be used for the payment of GST for domestic procurement. Although GST paid on domestic procurements are allowed as Input Tax credits under GST. Such duty scrips should be allowed to be used for the payment of GST.

It may be noted that in foreign trade policy 2015-20, prior to GST regime, such duty credit scrips were allowed to be utilised for the payment of Central Excise duty on domestic procurements.

11. Complex labour laws: There are different 44 labour laws that need to be replaced by one best suitable labour law.

12. Restrictions on women working in night shifts can be removed subject to satisfactory safety and security arrangements, as in the garment manufacturing industry, women constitute a majority of the work force globally.

D. Other Issues Resulting in Global Uncertainties:

1. Recent trade wars between the leading economies of world has created a panic of uncertainty in the business environment.

2. A recent case filed by the USA in the World Trade Organization alleging that export incentives were harming American companies is also a threat to the Indian industry.

To conclude, it can be said that although India is playing a crucial role in global cotton textiles, yet it has a much larger role to play in the near future by exploring its under-utilised potential in terms of cotton yields and improving upon certain cotton specific areas. At the global cotton textile demand front, India needs to address certain policy and operational issues. Only by doing this can India easily beat its competing countries on the global front in terms of textile product pricing and marketing.

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(The views expressed in this column are of the author and not that of Cotton Association of India)

Production of Fibres

(In Mn. Kg)

As on	Raw Cotton (Oct.-Sept.)	Synthetic			Cellulosic	Sub Total
		PSF	ASF	PPSF	VSF	
2016-17 (P)	--	898.97	96.37	3.64	364.99	1363.97
2017-18 (P) (Apr.-Feb.)	--	784.41	86.14	3.19	341.61	1215.35
2016-17 (P)						
April	--	73.56	8.86	0.37	30.32	113.11
May	--	77.07	9.39	0.44	31.72	118.62
June	--	77.46	9.28	0.45	21.87	109.06
July	--	79.32	8.07	0.30	30.41	118.10
August	--	79.92	8.20	0.35	31.96	120.43
September	--	76.96	9.02	0.22	31.14	117.34
October	--	79.51	6.75	0.16	32.46	118.88
November	--	71.06	7.10	0.24	31.18	109.58
December	--	71.65	7.28	0.29	32.09	111.31
January	--	72.68	7.78	0.20	32.11	112.77
February	--	63.78	7.42	0.20	28.24	99.64
March	--	76.00	7.22	0.42	31.49	115.13
2017-18 (P)						
April	--	72.23	7.62	0.26	30.51	110.62
May	--	75.90	7.79	0.32	29.59	113.60
June	--	71.90	7.65	0.24	31.55	111.34
July	--	75.73	8.47	0.13	35.52	119.85
August	--	73.58	9.49	0.32	33.14	116.53
September	--	68.91	8.42	0.32	29.35	107.00
October	--	70.40	8.84	0.32	32.86	112.42
November	--	72.26	7.69	0.32	31.30	111.57
December	--	70.10	7.00	0.32	30.84	108.26
January	--	72.36	6.17	0.32	30.89	109.74
February	--	61.04	7.00	0.32	26.06	94.42

(P)= Provisional

Source : Office of the Textile Commissioner

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The CAI's network of independent cotton testing & research laboratories are strategically spread across major cotton centres in India and are equipped with:

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- HVI test mode with trash% tested gravimetrically

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COTTON ASSOCIATION OF INDIA
Established 1921

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UPCOUNTRY SPOT RATES

(Rs./Qtl)

Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	Spot Rate (Upcountry) 2017-18 Crop MAY 2018 14th	15th	16th	17th	18th	19th
	Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]											
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	11782 (41900)	11782 (41900)	11782 (41900)	11782 (41900)	11782 (41900)	11782 (41900)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	11923 (42400)	11923 (42400)	11923 (42400)	11923 (42400)	11923 (42400)	11923 (42400)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	7367 (26200)	7339 (26100)	7367 (26200)	7367 (26200)	7367 (26200)	7424 (26400)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	9026 (32100)	9026 (32100)	9055 (32200)	9055 (32200)	9055 (32200)	9111 (32400)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	9926 (35300)	9898 (35200)	9926 (35300)	9926 (35300)	9926 (35300)	9954 (35400)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	11614 (41300)	11585 (41200)	11614 (41300)	11670 (41500)	11726 (41700)	11782 (41900)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	8520 (30300)	8436 (30000)	8436 (30000)	8464 (30100)	8492 (30200)	8548 (30400)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	9533 (33900)	9476 (33700)	9448 (33600)	9448 (33600)	9448 (33600)	9448 (33600)
9	P/H/R	ICS-105	Fine	27mm	3.5.4.9	26	11754 (41800)	11726 (41700)	11754 (41800)	11810 (42000)	11867 (42200)	11923 (42400)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	9026 (32100)	8970 (31900)	9026 (32100)	9026 (32100)	9026 (32100)	9055 (32200)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	10095 (35900)	10011 (35600)	9954 (35400)	9898 (35200)	9870 (35100)	9870 (35100)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	11810 (42000)	11782 (41900)	11810 (42000)	11867 (42200)	11923 (42400)	11979 (42600)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	10826 (38500)	10770 (38300)	10798 (38400)	10854 (38600)	10911 (38800)	10967 (39000)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	11473 (40800)	11445 (40700)	11445 (40700)	11473 (40800)	11501 (40900)	11529 (41000)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	11389 (40500)	11304 (40200)	11304 (40200)	11332 (40300)	11360 (40400)	11417 (40600)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	11698 (41600)	11670 (41500)	11698 (41600)	11726 (41700)	11754 (41800)	11810 (42000)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	11810 (42000)	11810 (42000)	11810 (42000)	11838 (42100)	11867 (42200)	11923 (42400)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	12120 (43100)	12092 (43000)	12120 (43100)	12148 (43200)	12176 (43300)	12232 (43500)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	12513 (44500)	12485 (44400)	12513 (44500)	12541 (44600)	12570 (44700)	12626 (44900)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	15832 (56300)	15803 (56200)	15747 (56000)	15691 (55800)	15635 (55600)	15635 (55600)

(Note: Figures in bracket indicate prices in Rs./Candy)